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Alberta ECONOMIC OUTLOOK

Season's Greetings

December 1973

ALBERTA — NATIONAL AFFAIRS

Economic forecasters are finding it more difficult than usual to estimate the growth of Canadian national income for the coming year. The added difficulty lies in second guessing what the Arab oil producers will do, and what effect the oil cuts will have on the U.S. economy.

For the most part forecasts for growth of real gross national product lie in the 4½ percent to 5½ percent range. This range is predicated on an anticipated national income growth of 2½ percent in the U.S. and zero in Western Europe and Japan. However, the U.S. figure is more optimistic than those being discussed in the U.S. itself. Herbert Stein, Chairman of the Council of Economic Advisers had been forecasting 3 percent growth but revised it downwards to 1 percent because of the oil cuts. This means a downturn in the first quarter. The U.S. Department of Commerce is even more pessimistic believing that real growth will be 4 percent below the previous forecast implying that real national income will decline by 1 percent in 1974. The difference between the two figures largely reflects disagreement over how effective oil conservation policies will prove to be.

Forecasts of reduced real growth for our trading partners in the range suggested above imply an adverse affect on Canada's exports. However, as Wood Gundy points out in its December issue of *Invest* there are mitigating factors. Inventories of metals, foodstuffs and forest products are low and demand for foodstuffs and energy will likely remain strong. The energy crisis in other countries will hamper their production in energy intensive industries such as metal refining and forest products, creating new export opportunities for Canada. Export volumes and prices can therefore be expected to decline only slightly. On the other hand the strong expansion of capital outlays which Industry, Trade and Commerce's annual survey reveals is to be expected in 1974 will mean increased imports, although prices may not rise if sufficient slack develops abroad. This all adds up to the oil situation having a minimal impact upon the Canadian economy if the second guesses on Arab intentions and the affects of the oil cuts are correct. It is a big if.

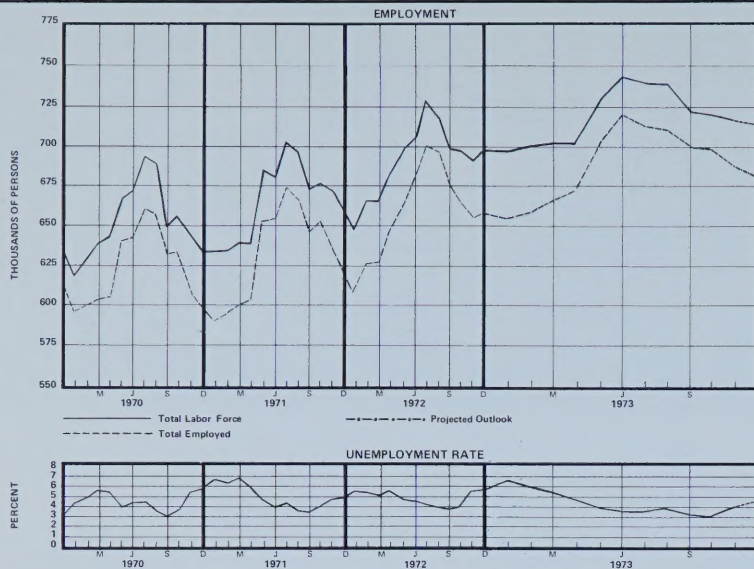
For the Canadian economy the emergence of a government deficit and large increases in private investment will

boost demand. The government deficit is already shaping up to about \$2,000 millions and may go higher. Private investment according to the Department of Industry, Trade and Commerce's annual business investment survey should show an advance of 21 percent on the level of outlays likely to be attained in 1973. Very large projects in the manufacturing sector for new steel mills, chemical plants, pulp and paper mills are planned and these are unlikely to be affected by short run uncertainty created by the oil crisis, as they are designed to meet serious shortages which were developing without the aid of the oil embargo. 1974 investment expenditures are expected to be above 1973 levels by 46.5 percent in manufacturing, 28.3 percent in oil and gas, 15.8 percent in transportation and communications, and 11.9 percent in electric utilities.

It is generally anticipated that government spending and private investment will be sufficient to offset a slowing of consumer expenditure, particularly on consumer durables, and a decline in housing starts. What happens to consumer spending depends largely on the availability of discretionary cash, and this has been expanding at a declining rate throughout 1973. Currency and demand deposits in real terms expanded at an annual average rate of 4.0 percent in the third quarter, compared with 6.4 percent in the second and 7.6 percent in the first. As the Bank of Canada still seems to be following a policy of slowly easing down on the rate of increase in the money supply, the growth of consumer real cash balances will grow at an even slower rate during the last quarter of this year and the first quarter of 1974. The Conference Board expects housing starts to be down by 7 percent in 1974 on 1973, to 245,000, due mainly to rising costs and high mortgage rates but also because of shortages of serviced lots in some areas.

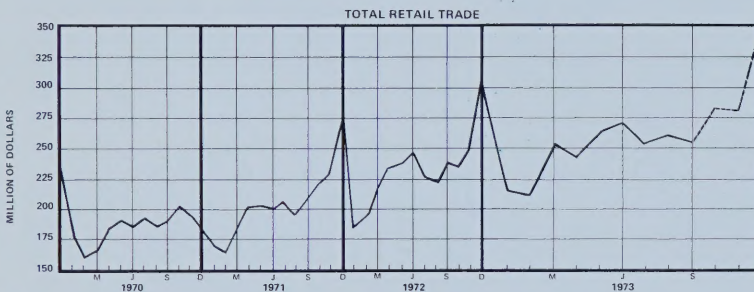
While demand looks reasonably healthy, supply in many areas is likely to be uncomfortably tight as reflected in the investment projects discussed earlier. Shortages are most acute and are most likely to persist longest for steel and petrochemicals (particularly plastic resins). They will undoubtedly have a restraining effect on investment plans although it is difficult to say by how much.

Profits will come under pressure from a number of directions. First materials shortages will lead to price increases for inputs. Second wage base rates (except construc-



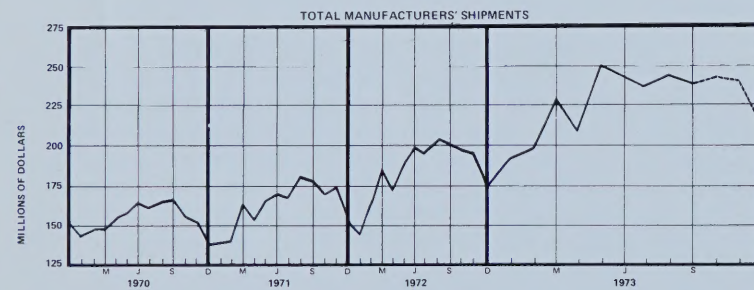
EMPLOYMENT

The seasonal declines which usually occur in labour force characteristics at this time of the year continue to be less than expected. The unemployment rate in November of 4.0 per cent, although up from 3.1 per cent in October, was down from the 5.1 per cent level for November, 1972. November's labour force, total employed and unemployed were 717,000, 688,000 and 29,000 respectively. In December, the labour force and total employed are expected to decline to 715,000 and 682,000, with 34,000 unemployed. The December forecasts result in a yearly average for 1973 of 718,000 in the labour force, 688,000 employed and 30,000 unemployed. The preliminary forecast for 1974 indicates average yearly totals for labour force of approximately 746,000, with 16,000 employed and 30,000 unemployed.



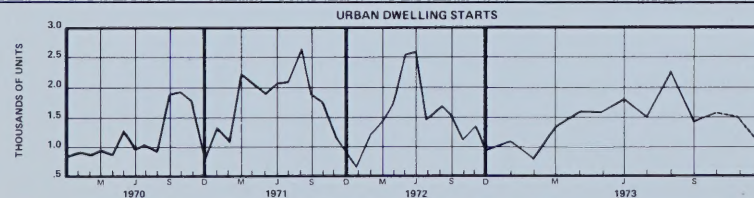
RETAIL TRADE

September's preliminary total of \$254 million was 6.9 per cent above the same month in 1972. The cumulative total to the end of September at \$2,222 million remains approximately 12 per cent above the same period in 1972. December's total value should reach over \$345 million, bringing the 1973 forecast total for retail trade of over \$3,157 million. Preliminary forecasts for 1974 indicate some dampening of total trade to a 9 per cent increase over 1973, or to approximately \$3,441 million.



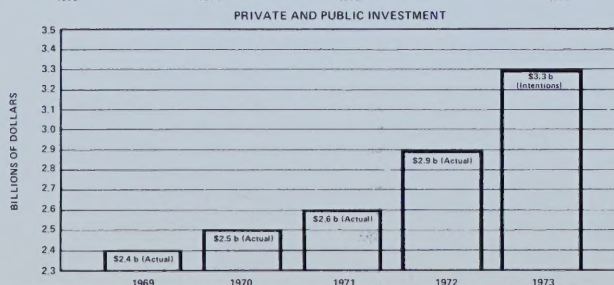
MANUFACTURING SHIPMENTS

To the end of September, 1973, total manufacturing shipments reached \$2,052 million, almost 20 per cent above the same period in 1972. September's total rose by over 15 per cent from September, 1972 to \$239 million. The forecast for December indicates a total of nearly \$214 million, placing the 1973 total at approximately \$2.8 billion, or a 20 per cent increase from 1972 levels. For 1974, an additional 15 per cent increase raising the value of total shipments to close to \$3.3 billion is anticipated.

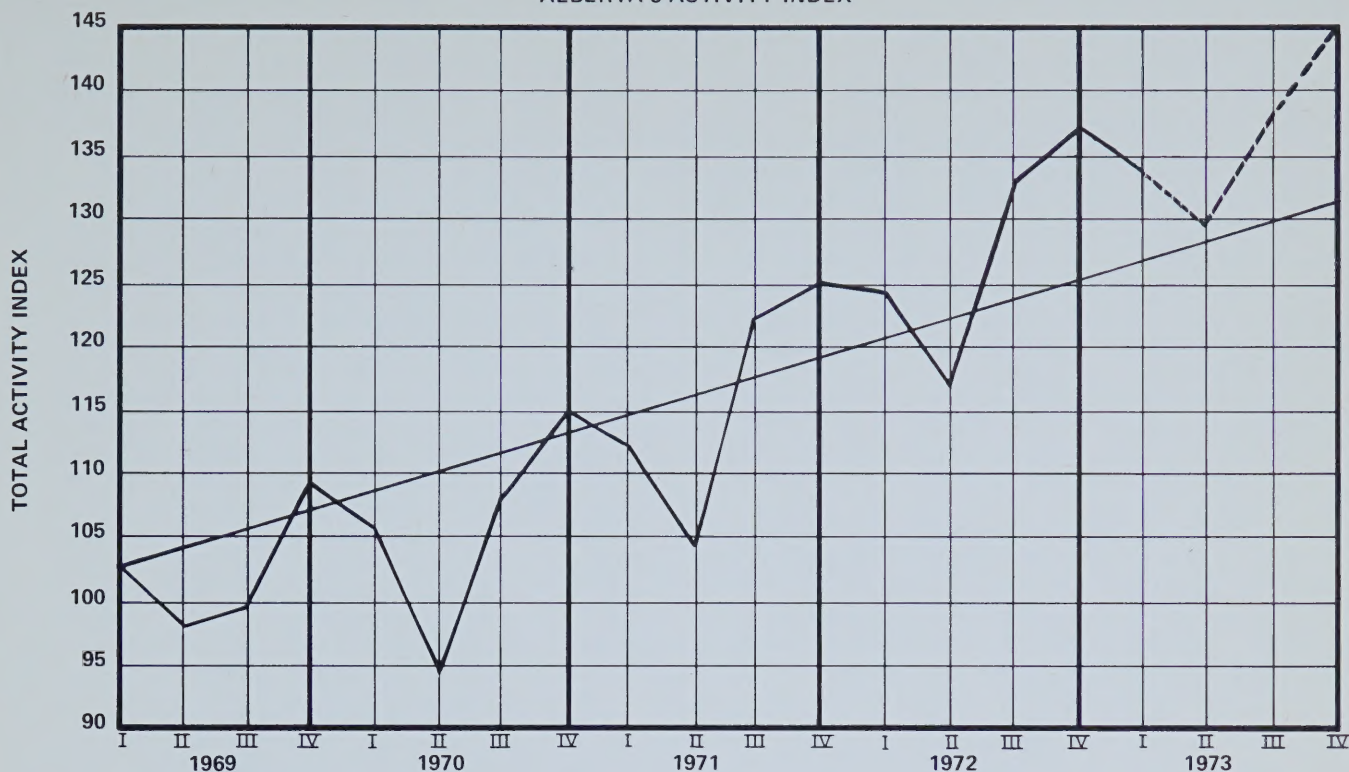


HOUSING

Urban dwelling starts in the month of October reversed the downward trend which was evident in monthly comparisons between 1972 and 1973 since February of this year. Urban dwelling starts in October, at 1,586, rose by over 30 per cent over the same month in 1972. The cumulative total to the end of October at 14,343 however, continued to be over 10 per cent below the comparable 1972 level. Our initial forecast for 1973 was near 17,700, however, this earlier projection has been revised downwards to approximately 16,700. Early indications for 1974 reveal a further decline to roughly 16,300.



ALBERTA'S ACTIVITY INDEX



PERTINENT ECONOMIC INDICATORS FOR THE PROVINCE OF ALBERTA

INDICATOR	Percentage Change in Volume Activity		
	Total Year 1971 - 1970	Total Year 1972 - 1971	Year to Date 1973 - 1972
MANUFACTURING			
Slaughtered Meat Production	+13.6	+ 3.3	- 1.6 (Jan. - Oct.)
Slaughtered Meat Exported	+12.6	+ 5.3	- .5 (Jan. - Oct.)
Refinery Production	+10.7	+21.4	+ 7.7 (Jan. - Sept.)
Cement Production	+ 4.5	+ 3.5	+ 7.0 (Jan. - Oct.)
MINING			
Oil Production	+ 9.4	+20.8	+23.0 (Jan. - Sept.)
Gas Production	+10.1	+16.8	+ 9.1 (Jan. - Sept.)
Footage Drilled	+ 1.8	+21.9	+33.7 (Jan. - Sept.)
Number of Wells Drilled	+ 9.6	+13.1	+44.4 (Jan. - Sept.)
Coal Production	+31.7	+14.1	- .9 (Jan. - Sept.)
CONSTRUCTION			
Urban Dwelling Starts	+54.0	- 15.4	- 10.8 (Jan. - Oct.)
Rigid Insulation Board Shipments to Alberta	+15.6	+ 5.9	- 6.2 (Jan. - Oct.)
Metal Shapes Shipments (Est'd)	- 4.0	+ 7.6	+10.0 (Jan. - Sept.)
AGRICULTURE			
Grain Shipments	+ 8.8	- 2.9	- 9.7 (Jan. - Oct.)
Livestock Marketed	+15.1	- 1.6	- 6.5 (Jan. - Sept.)
Farm Cash Receipts	+ 9.8	+14.0	+37.9 (Jan. - Oct.)
FORESTRY			
Lumber Production	+ 6.1	+16.0	+24.2 (Jan. - Oct.)
Lumber Sales	+34.7	+ 5.7	+19.2 (Jan. - Oct.)
Lumber Exports	+26.5	+24.7	- .7 (Jan. - Oct.)
Pulpwood Production	- 34.9	+47.8	+34.8 (Jan. - Oct.)

	NOVEMBER 1973	OCTOBER 1973	NOVEMBER 1972	OCTOBER 1972
UNEMPLOYMENT RATE (Unadjusted)				
Canada	5.0	4.6	5.9	5.2
Alberta	4.0	3.1	5.1	3.7

CONSUMER PRICE INDEX (1961 = 100)

	NOVEMBER 1973	OCTOBER 1973	NOVEMBER 1972	OCTOBER 1972
Calgary-Edmonton	145.9	145.1	135.3	134.6

tion) increased more slowly than the consumer price index in the third quarter. Wage base rates advanced at an annual average rate of 9.8 percent compared with 11.2 percent for the consumer price index. As a result, wage claims in 1974 will be well up on those demanded in 1973. Third, with industry working close to capacity gains in productivity will be small.

We are unlikely to see a moderation of the rate of inflation in 1974, for the commodity price hikes of last summer are still working through to the consumer level, and the government deficit will add further pressure unless either taxes are raised or the money supply contracted. As the Bank of Canada has forewarned an over-active money policy and because we have a minority government for which a tax raise would be uncomfortable, it looks as if the deficit will not be covered.

On the final analysis it would appear that there is sufficient steam in the Canadian economy to withstand the affects of a temporary downturn in the U.S. However, it should be remembered that expansion in Canada cannot maintain presently anticipated levels if the U.S. recession turns out to be more than a pause.

ALBERTA – PROVINCIAL AFFAIRS

The Economic Research and Analysis Branch, Department of Industry and Commerce, recently undertook a survey of building materials supply in Edmonton. It indicates that the chief shortages in 1974 will involve steel and products using steel, and labour.

Local construction firms are waiting three to six months for steel and this is causing delay of some projects. Since relatively little additional steel capacity is expected to appear during 1974 the situation is not expected to improve unless demand abates.

Prestressed concrete product firms are finding steel and steel cables in short supply and expensive but since the quantities required are relatively small, the shortage has not interfered much with production. Producers of concrete accessories where steel is used have run into similar problems.

All sectors of the building products industry contacted reported difficulty in obtaining sufficient skilled labour. The Canadian Manufacturers Association blames an immi-

gration policy which slows recruitment, apprenticeship regulations which prolong training periods and unemployment insurance which reduces the incentive to work during the winter months.

ALBERTA – INTERNATIONAL AFFAIRS

What forecasters seem not to have noticed recently, is that all the major western industrial economies are peaking at the same time. Most people were caught out by the world wide shortages which accompanied the simultaneous expansion of the major economies; are we not now in danger of underestimating the effects of a simultaneous downturn? The uncomfortable thing about recessions is that they are mutually reinforcing, so that once started a simultaneous downturn may be difficult to arrest. The point of this discussion is not to spread gloom and doom, but to indicate that contractionary monetary and fiscal policies at this time are the one thing which should be avoided. That is why the current neutral policy stance in the U.S.A. and the positive one in Canada are so encouraging and the contractionary policies in Japan, West Germany and Great Britain are disquieting.

In the past while some countries may have been in a recession, others principally West Germany and the U.S.A., have been in an expansionary phase so that the latter group was able to support the recovery of the former by expanding their imports. Even if the U.S. economy stays relatively buoyant in comparison to Western Europe, it would not be able to help the latter through increasing imports or decreasing exports without creating problems for the U.S. dollar. This would compromise the stability of the international monetary system which is only being maintained by the recent strength which the U.S. dollar has gained from the emergence of surplus on the U.S. balance of payments. All of this lends a new urgency to reform of the world monetary system.

Canada's stake in all this is extremely large. 28 percent of our national income is derived from international trade. While food exports would remain strong in the face of a slowing in the expansion of world trade, the same may not be true of metals and metallic minerals which in 1972 comprised 21 percent of our exports by value. The likelihood is that metal prices would suffer a fall as world production slowed and especially if the Japanese started to unload some of their enormous inventories of metals.

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